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TO: Dennis Fay, Executive Director
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RE: Legislative Update

Review Denied!!!!: The California State Supreme Court has denied the State's request to appeal the 3rd District Court of Appeal's decision that found the state illegally appropriated funds dedicated to public transit to non-public transit purposes. The Supreme Court's decision to deny the State's petition to review lets stand the Appellate Court decision that ruled in favor of the California Transit Association on all counts. This action places the state on the hook for nearly \$3.5 billion in transit funding that has been diverted over the past 3 years. While it will take some time to sort out how this decision will be implemented, this action should result restoring the flow of Prop 42, State Transit Assistance, and spillover funds to transit operators in the current fiscal year.

Developing Initiative: The League of Cities, the California Transit Association and the California Alliance for Jobs are leading an effort to place on the November 2010 ballot an initiative to enact greater protections from state raids of local transit and transportation funding.

Proposed language is expected to be submitted to the Attorney General's Office for drafting within a month. The proposal would generally seek to place Prop 1A type of protections on Public Transportation Account funds, and eliminate the ability to suspend Prop 42 or HUTA funds. The language is still being developed. Initial polling is favorable for a measure that would restrict the legislature's ability to divert transit and transportation funds. This effort is in the initial phase and a decision to proceed with signature gathering has not been made.

21st Century Taxes: The Commission on the 21st Century Economy submitted its recommendations to the Governor. Governor Schwarzenegger then announced creating a 6th extraordinary session for the Legislature to act on the Commission's recommendations.

The Governor was joined by the Chairman of the Commission, Gerald Parsky, in unveiling the Commission's recommendations for overhauling the state's tax structure. There are no surprises as the recommendations included items previously reported, such

as repealing the state's share of the sales tax, eliminating corporate taxes, exchanging current multiple income tax brackets with only two at a much lower rate, and imposing a net receipts tax on businesses.

Since only nine out of 14 Commissioners endorsed the plan, the Commission considers these recommendations a starting point for consideration by the Legislature. Those Commissioners signing-on to the report include: Gerald Parsky, Ruben Barrales, Michael Boskin, John Cogan, Edward De La Rosa, Christopher Edley, Jr., Monica Lozano, Rebecca Morgan, and Curt Pringle.

A copy of the 450 page report and additional information can be found at the Commission's website (www.cotce.ca.gov). A detailed discussion of each of the recommendations below can be found in the report's Appendices, as well as draft language to implement the plan. The recommendations include the following:

- Reduce the number of tax brackets from six to two. The new tax rate would be 2.75 percent for taxable income up to \$56,000 for joint filers (\$28,000 for single) and 6.5 percent for taxable income above that amount.
- Eliminate the corporate tax, which is currently at 8.84 percent. The Commission suggests that the \$800 minimum franchise tax should also be eliminated.
- Eliminate the current 5 percent state sales tax, with the exception of the sales tax on gas and diesel fuels which would continue to be dedicated to transportation pursuant to Prop 42. Elimination of the sales tax would phase in over five years.
- Establish a business net receipts tax that should not exceed 4 percent. The proposal would exempt small businesses with less than \$500,000 in gross annual receipts from this tax.
- Create an independent tax dispute forum that would provide taxpayers with a forum for resolving disputes with the state.
- The Commission also recommends strengthening the state's Rainy Day Reserve Fund. The proposal suggests increasing the target for the reserve from 5 percent of revenues to 12.5 percent, and further restrict the ability to use the reserve funds.

Ambitious Achievable Targets: The Regional Targets Advisory Committee has submitted its final recommendations to the California Air Resources Board for consideration. Pursuant to SB 375, the RTAC was created to make recommendations to CARB on how to set "ambitious achievable targets" for greenhouse gas reduction within each region. These targets should be achievable by implementing changes in land use and transportation planning that result in reducing the number of vehicle miles traveled.

In general the report recommends CARB to quickly develop a list of Best Management Practices, along with an estimate on the amount of greenhouse gas reduction each BMP should achieve. In addition to BMPs, the report also proposes the use of land use models as another means of reaching the goals. It is assumed that larger urban regions would have computer modeling already in place that could be improved to reach the targets while smaller regions could rely on BMPs to reach the target.

The report goes beyond recommendations on how to set the targets in each region and also outlines several issues that must be addressed that are critical to being able to implement SB 375 and achieve the goals of AB 32. The report makes recommendation to ensure social equity and housing issues are addressed, to make sure local governments have proper funding to implement plans, including the need to replace inadequate sewer and water systems, and to provide incentives to exceed the target. The report recommends that in order to successfully implement SB 375 the state must also provide adequate funding for public transit and local streets and roads, as well as authorize local governments to impose local fees to fund the development of sustainable community strategies.

SB 375 requires CARB staff to submit draft targets to the Board by June 30, 2010 and final targets by September 30, 2010. The report outlines an ambitious schedule over the next nine months that directs CARB staff to work with regions on developing specific targets.

A copy of the final report can be found at:
<http://www.arb.ca.gov/cc/sb375/rtac/report/092909/finalreport.pdf>

Proposition 1A Loan: Efforts by counties and cities continue in urging the Senate to return to Session to complete the legislation necessary to put into place the California Communities Joint Powers Fund, the bond pool needed for securitization of the Prop 1A loans. Senate President Pro Tem, Steinberg has mentioned the Senate to return to Sacramento the week of October 12, but session has not officially been set.

Absent action by the Senate to obtain a 2/3 vote to send SB 67 to the Governor, the ability of the California Statewide Communities Development Authority to securitize the loans will be delayed until March. Failure to enact SB 67 soon will prevent the CSCDA from marketing the bonds in November, which is the last opportunity to sell state backed bonds until March 2010. Between December 1st and February 15th the state's "books" are not open for review while the budget is being prepared. Delaying the issuance until March 2010 will create serious cash flow problems and service reductions for local agencies, which are already experiencing unprecedented economic challenges. Waiting until March also increases the state's cost to issue these bonds by \$200 million.

Prop 1A Loan Rate: On Friday, September 25, Director of the Department of Finance Mike Genest sent a letter to Cities, Counties and Districts announcing that the interest rate that DOF would pay for direct loans to the State would be 2.00 percent. This is a full 1.5 percent less than the number that the Department had suggested to counties less than

two weeks earlier. It comes as no surprise, however, since the interest rate on the RANs that the Treasurer sold last week was around two percent.

As you will recall, the Legislature and Administration agreed to compensate local governments for this loan in one of two ways: local agencies could either securitize the loan through a joint powers agency and receive replacement funds almost immediately, or they could loan the funds directly to the State and be paid interest at a rate to be determined by the Department of Finance. That rate was to be somewhere between the rate earned by the Pooled Money Investment Account and six percent.

Redevelopment Agency Take Deserted: The provision in the 2008-09 budget requiring that redevelopment agencies pony up \$350 million for ERAF is being deserted by the State. Yesterday the Attorney General notified the Court and the California Redevelopment Association that it will no longer pursue its appeal of the matter, which it had lost in Superior Court.

The Attorney General will be kept busy; however, since the Association will soon file another suit in Sacramento on the action in this year's Budget that took a much larger sum of RDA funds – over \$2 billion. All the details are outlined in the Redevelopment Association's press release at the following link:

<http://www.calredevelop.org/AM/Template.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=5956>

State Parks: The Governor announced a revision to the original plan of closing more than 100 state parks on Friday. Now, in order to save \$14.2 million in the current fiscal year, parks will instead reduce maintenance, put off equipment purchases, and lower the numbers of hours the parks are open. The Administrations January 10th Budget Proposal will contain information about how the ongoing \$22.2 million savings will be accomplished.

LEGISLATION

The Governor has until October 11th to take action on all bills sent to his desk.

Bills	Subject	Status	Client - Position
<u>AB 289</u> (Galgiani) High-speed rail.	<p>AB 289 was substantially amended to require the High-speed Rail Authority, to the extent possible, to use the Prop 1A bond proceeds to match federal ARRA funds</p> <p>The bill previously proposed extending the existing CEQA exemption for grade separation projects to high-speed rail grade separation projects.</p>	SENATE RLS. Two-Year Bill	ACTIA-Watch CMA-Watch
<u>AB 338</u> (Ma) Transit village developments: infrastructure financing.	<p>AB 338 would allow a city or county to create a transit village infrastructure financing district.</p> <p>AB 338 was not amended to include MTC's suggested amendment to dedicate 10% of the housing funds for units that are fully accessible.</p> <p>For the purpose of financing transit improvements this bill would allow a local agency to establish an infrastructure financing district (IFD) without a public vote. The IFD would dedicate the incremental growth in property tax values to transit improvements. The bill would also require the local agency to dedicate 20% of the increment to low income housing projects within the district. AB 338 does not alter the existing exemption for school funds and the local agency must negotiate with and get the</p>	Governor's Desk	ACTIA- Support & Seek Amendment CMA- Support & Seek Amendment MTC-Support & Seek Amendment

	approval of the other taxing jurisdictions before their share, if any, is dedicated to the IFD.	Governor's Desk	ACTIA – Sponsor CMA – Support MTC-None
<u>AB 468</u> (Hayashi) Public Employees' Medical and Hospital Care Act: employer contributions.	AB 468 has been sent to the Governor for signing. AB 468 would authorize ACTIA to enact a graduated vesting schedule for Public Employees' Medical and Hospital Care Act (PEMHCA) benefits that specifies no employer contribution for the first five years of service. After five years of service the employer's contribution increases to 50%, and the contribution rate increases 5% per year, with 100% employer contribution after 15 years of service.	Governor's Desk	ACTIA – Oppose CMA – Oppose MTC-Oppose
<u>AB 497</u> (Block) Vehicles: high-occupancy vehicle lanes: used by physicians.	This bill would allow a physician to use an HOV lane regardless of occupancy requirements when traveling to an emergency call if the car displays an insignia to be developed by the Department of Motor Vehicles. AB 497 failed passage in the Senate Transportation & Housing Committee. The vote was 3-4, with 4 members not voting. The bill was granted reconsideration.	Two-Year Bill	ACTIA – Oppose CMA – Oppose MTC-Oppose
<u>AB 628</u> (Block) Vehicles: toll evasion violations.	This bill permits toll roads and bridges operating in California, which already use vehicle identification cameras for recording toll violators, to begin using the same technology for the payment of tolls. This method is in addition to cash, a transponder (e.g., FasTrak), or other electronic toll payment devices that are authorized under current law.	Governor's Desk	ACTIA - Support CMA – Support MTC-Support
<u>AB 652</u> (Skinner)	AB 652 creates a pilot program for AC Transit to test the use of bike racks that accommodate three bicycles.	Governor's Desk	ACTIA – Support CMA – Support

Vehicles: vehicle length limitation.	AB 652 was amended to address a couple issues raised by Caltrans. The amendments address actions of the Route Review Committee when a route is changed, and inserts intent language that mirrors existing law that applies to two position bike racks. The amendments do not include Caltrans' request to complete an engineering analysis of the routes where these racks will be used on 45 foot buses.		MTC-None
<u>AB 672</u> (Bass) Transportation: bond-funded projects: letter of no prejudice.	This bill would establish a process for local and regional agencies to apply for a Letter of No Prejudice (LONP) for any project using Prop 1B funds. AB 672 has been approved by the Legislature and it is currently pending on the Governor's desk.	Governor's Desk	ACTIA - Support and Seek Amendments CMA-Support MTC-Support
	If approved by the entity administering the Prop 1B program, the LONP will serve to ensure the project sponsor will be reimbursed for expending its own funds for any bond-funded component of the project. Given the uncertainty of the state's budget and financial markets, Speaker Bass has introduced this measure to give local entities a means to deliver projects even if the bond funds are not available.		SENATE APPR. SUSPENSE FILE Two-Year Bill
<u>AB 744</u> (Torrico) Transportation: toll lanes: Express Lane Network.	AB 744 authorizes BATA to finance, construct and operate an express lane network in the Bay Area. The bill establishes a framework for creating corridor working groups that will plan and develop HOT lanes within each corridor.		ACTIA - Support In Concept CMA - Support In Concept MTC-Sponsor

Due to continued opposition from Sierra Club and new opposition from Caltrans engineers, AB 744 has become a

	two-year bill and was held on the Suspense File.	Governor's Desk	ACTIA - Support and Seek Amendments CMA - Support and Seek Amendments MTC-None
<u>AB 798</u> <u>(Nava)</u> California Transportation Financing Authority: toll facilities.	AB 798 would create the California Transportation Financing Authority with specified powers and duties relative to issuance of bonds to fund transportation projects to be backed by various revenue streams of transportation funds, and toll revenues. The purpose of the Authority is to finance the construction of new capacity or improvements for the state transportation system. <i>AB 798 has been amended to include bus projects as well as rail. However, amendments removing the requirement for Bay Area counties to seek approval from MTC prior submitting an application with the CTFIA was rejected by the sponsors and the Senate Transportation & Housing consultant. The reasoning was that this requirement is consistent with the regional planning structure in the Bay Area.</i>	Governor's Desk	ACTIA-Support CMA-Support MTC-Sponsor
<u>AB 1175</u> <u>(Torlakson)</u> Toll facilities.	AB 1175 makes several changes to the Toll Bridge Seismic Retrofit Program. The bill include the following changes: <ul style="list-style-type: none">• Adds the Dumbarton and Antioch Bridges into the Toll Bridge Seismic Retrofit Program (IBSRP),• Authorize the Bay Area Toll Authority (BATA) to administratively increase bridge tolls for the purposes of completing these seismic retrofit improvements, to meet bonding obligations,• Requires BATA to provide cash-based option for	Governor's Desk	ACTIA-Support CMA-Support MTC-Sponsor

	<p>FastTrack customers that does not require customers to provide a name or address,</p> <ul style="list-style-type: none"> Requires BATA to contract with an independent entity to review privacy issues, and Repeals BATA's authority to reduce the seismic toll surcharge as a means of encouraging the use of FastTrack. <p>The bill was previously amended to remove provisions that would allow BATA to submit regional measures to voters for toll increases.</p>		<p>Governor's Desk</p> <p>ACTIA – Support CMA – Support MTC-Support</p>
AB 1186 <u>(Blumenfield)</u> Employee parking.	<p>AB 1186 is intended to promote the use of the existing “parking-cash-out program.”</p> <p>This bill would require a lessor of a building located in a non-attainment area to list parking costs as a separate line item on all lease agreements. This requirement would only apply leases that provide space for 50 or more employees. Unbundling the parking cost would make it easier to offer employees cash in lieu of parking subsidies.</p>		<p>Governor's Desk</p> <p>ACTIA – Support CMA – Support MTC-None</p>
AB 1386 <u>(Hayashi)</u> State highways.	<p>As approved by the Legislature, AB 1386 make several changes to the Local Alternative Transportation Improvement Program (LATIP) for both the Route 238 and Route 84 corridors as follows:</p> <ul style="list-style-type: none"> Amends existing law to allow the proceeds from the sale of state owned right-of-way along the proposed Route 238 corridor to be used for both state and local transportation improvements 		<p>Governor's Desk</p> <p>ACTIA – Support CMA – Support MTC-None</p>

	<ul style="list-style-type: none"> Specified in the LATIP, Specifies that the proceeds from the sale of property is deposited into a special account that AB 1386 creates until it is used to implement a LATIP project, Allows for local funds to be used to advance a LATIP project and be repaid at a later date with the sale proceeds, and Repeals the existing housing related provisions for the Rt 238 LATIP, and adds provisions outlining the settlement agreement that is subject to court approval. 	
<u>AB 1500</u> <u>(Lieu)</u> High-occupancy lanes: single occupancy vehicles:	<p>AB 1500 has been amended to extend the sunset date by only 3 years from January 1, 2011 to January 1, 2014, on existing law that allows specified types of electric and other zero emission vehicles to use an HOV lane regardless of the number of occupants.</p> <p>Previously AB 1500 proposed to extend the sunset date for 5 years. In addition, the extension does not apply to the existing exemption for hybrid vehicles such as the Prius. The exemption for hybrid vehicles would sunset on January 1, 2011.</p>	SENATE INACTIVE FILE Two-Year Bill
<u>SB 83</u> (Hancock) <u>SB 205</u> <u>(Hancock)</u> Traffic congestion: motor vehicle	<p>SB 205 was held on the Assembly Appropriations Suspense File. Leadership negotiations between the Senate and Assembly resulted in an agreement to amend the content of SB 205 into SB 83, which was already on the Assembly Floor.</p>	Governor's Desk ACTIA – Support CMA – Sponsor MTC-Support

registration fees.	As approved by the Legislature, SB 83 would allow any county congestion management agency to place on the ballot a majority vote measure to impose up to a \$10 fee on each vehicle for the purpose of funding congestion mitigation and air quality programs		
SB 391 <u>(Liu)</u> California Transportation Plan.	SB 391 requires Caltrans to update its state transportation plan by December 31, 2015 and every five years thereafter. This bill also requires the plan to address how the state will meet the transportation infrastructure and mobility needs of California and attain air pollution standards required by federal and state law and achieves greenhouse gas (GHG) emissions reductions needed from the transportation sector.	Governor's Desk	ACTIA – Support CMA – Support MTC-None
SB 406 <u>(DeSaullnier)</u> Land use: environmental quality.	While SB 205 was held on the Suspense File, SB 406 was approved with amendments. The amendments change how the \$2 vehicle registration fee is imposed, and the amendments add congestion management agencies as eligible recipients for grants. In general the bill authorizes metropolitan planning organizations to request the air district to increase the air quality registration fee by up to a \$2 on each vehicle registered within the district. If the population exceeds 300,000 then all amounts above \$1 must be used for grants to cities, counties and congestion management agencies for planning and projects related to implementing a regional blueprint plan. In the Bay Area, the resolution requesting the surcharge must be adopted by both MTC	Governor's Desk	ACTIA-Support and Seek Amendments CMA - Support If Amended MTC- Support and Seek Amendments

	<p>This bill also makes changes to the membership and duties of the Office of Planning and Research's Planning Advisory and Assistance Council (PAAC). The PAAC currently consist of representatives from cities, counties, and regional agencies that are appointed by the Director of the Governor's Office of Planning & Research. The PAAC assists OPR in the development State's Environmental Goals and Policies Report. SB 406 would significantly change the composition of the PAAC members and assign additional duties to the PAAC, such as coordinating regional blueprint plans.</p>	<p>SB 425 <u>(Simitian)</u> Personal and corporate income taxes: deductions: parking: credits: ridesharing expenses.</p> <p>SB 425 was held on the Senate Appropriation's Suspense File.</p> <p>SB 425 precludes employers subject to the Parking Cash-Out Law from claiming a deduction for employee parking unless all employees are offered a parking cash-out program that complies with the Parking Cash-Out Law. In addition, the bill allows employers to claim a tax credit for costs incurred during the taxable year for commute reduction expenditures, such as vanpools and transit passes.</p>	<p>SENATE APPR. SUSPENSE FILE</p> <p>Two-Year Bill</p>	<p>ACTIA-Support CMA-Support</p> <p>MTC-Support & Seek Amendments</p>
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	cost, the credit is limited to about \$170 per year.	ASSEMBLY INACTIVE FILE	ACTIA-Watch CMA-Watch
<u>SB 455</u> (Lowenthal) High-speed rail.	SB 455 is on the Assembly Floor and could be sent to the Governor this year. This bill makes numerous technical changes to operational practices of the High Speed Rail Authority, such as the ability acquire property and expend funds. The bill also makes the following more substantive changes to the HSRA: <ul style="list-style-type: none"> • Requires the Governor's appointees to be confirmed by the Senate • Requires preparation of a publicly adopted project schedule and a detailed assessment of delivery milestones. • Establishes criteria for making investments in Phase 1 projects to include: <ul style="list-style-type: none"> • enhanced rail access to stations and terminals, with priority given to those serving the largest employment centers; • improving travel times and service for existing commuter and intercity rail services; and • improving connections to the San Joaquin Valley from the Bay Area or Southern California. 	Two-Year Bill	
<u>SB 535</u> (Yee) Vehicles: high-occupancy vehicle lanes.	SB 535 has been amended to narrow the scope and potentially the impact of a new a new class of vehicle that would be eligible for stickers exempting that vehicle from HOV lane occupancy requirements.	ASSEMBLY INACTIVE FILE	ACTIA-Oppose CMA-Oppose MTC-None (MTC removed its Oppose

	As amended, an HOV lane exemption sticker would be available starting January 1, 2011 for a partial zero-emission vehicle and have a fuel economy rating of 65 miles per gallon. This “sticker” program would commence after the Prius sticker program sunsets. The 65 mph sticker would sunset on January 1, 2015 and it would be limited to 65,000 stickers.	position at the July 10 Legislative Committee meeting.)
<u>SB 728</u> (Lowenthal) Air pollution: parking cash-out program.	SB 728 is another bill that attempts to add teeth to the Parking Cash-out Program. This bill would authorize the cities, counties, and air districts to adopt a local ordinance and penalty to ensure employers comply with the program. Under the Parking Cash-out Program any employer with 50 or more employees that are located in a non-attainment area must provide a parking cash out program if the employer provides a parking subsidy to employees)	Governor's Desk ACTIA- Support CMA – Support MTC-Support
<u>SB 783</u> (Ashburn) High-speed rail.	SB 783 has been approved by the Legislature and it is currently awaiting action by the Governor. This bill requires the HSRA to adopt the business plan and submit the plan to the Legislature by January 1, 2012 and every two years thereafter. The Plan must address the following issues: <ul style="list-style-type: none"> • Include the most recent patronage forecast to identify high, medium and low ridership. • Prepare alternative financial pro formas for different levels of service. • Identify supplemental funding sources to augment 	Governor's Desk ACTIA-Watch CMA – Watch

	<ul style="list-style-type: none"> • the bond funds. • Identify agreements to public or private entities to fund components of the project. • Identify alternative public-private development strategies. • Hold at least one public meeting on the business plan.
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